

PARAGONAH TOWN
FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
YEAR ENDED JUNE 30, 2005

PARAGONAH TOWN, UTAH

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PARAGONAH TOWN, UTAH

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FINANCIAL SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

INDEPENDENT AUDITOR'S REPORT

The Honorable Town Council
Paragonah Town
Paragonah, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paragonah Town, Utah as of and for the year ended June 30, 2005 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paragonah Town, Utah as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2005, on our consideration of Paragonah Town, Utah's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, as listed in the financial section of the table of contents and budgetary comparison information on page 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Paragonah Town, Utah's basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements of Paragonah Town, Utah. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



WILSON & COMPANY
Certified Public Accountants

November 25, 2005
Cedar City, Utah

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion of Paragonah Town (Town) financial performance provides an overview of the Town's financial activities for the year ending June 30, 2005. This report is in conjunction with the Town's financial statements.

Financial Highlights

The assets of the Town exceeded its liabilities as of the close of the most recent year by \$1,035,590 (*net assets*). Of this amount, \$447,339 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total net assets decreased by \$37,266. The revenues met or exceeded the adopted budgeted amounts, and expenditures were less than the adopted budgeted amounts.

At the close of the current year, the Town government funds reported combined ending fund balances of \$239,658, an increase of \$19,541 in comparison with the prior year. Of this total amount, \$239,658 is available for spending at the government's discretion (*unreserved fund balance*).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The *government-wide financial statements* are designed to provide readers with a broad overview of Town finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the Town include general government, public safety, highways & streets, and culture and recreation. The business-type activities of the Town are water and electric services.

Fund financial statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and enterprise funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balance of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund.

The Town adopts an annual appropriated budget for its governmental fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with those budgets.

Refer to the table of contents for the location of the basic governmental fund financial statements.

Proprietary funds

The Town maintains two proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses an enterprise fund to account for its water and electric service operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and electric services which are considered major funds of the Town.

Refer to the table of contents for the location of the basic proprietary fund financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are part of the basic financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning The Town.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$1,035,590 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (57 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment, and infrastructure), less any related debt should there be any used to acquire those assets that is still outstanding. The Town has no outstanding debt as of year end. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay debt, should it be incurred, must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the year, the Town is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Paragonah Town's Net Assets

	Governmental Activities	Business-type Activities	Total
	2005	2005	2005
Current & other assets	266,421	229,589	496,010
Capital asset	<u>226,823</u>	<u>361,428</u>	<u>588,251</u>
Total assets	<u>493,244</u>	<u>591,017</u>	<u>1,084,261</u>
Long-term Liabilities outstanding			
Other liabilities	<u>26,763</u>	<u>21,908</u>	<u>48,671</u>
Total liabilities	<u>26,763</u>	<u>21,908</u>	<u>48,671</u>
Net assets:			
Invested in cap. assets, net of debt	226,823	361,428	588,251
Unrestricted	<u>239,658</u>	<u>207,681</u>	<u>447,339</u>
Total net assets	<u><u>466,481</u></u>	<u><u>569,109</u></u>	<u><u>1,035,590</u></u>

Changes in Paragonah Town's Net Assets

	Governmental Activities	Business-type Activities	Total
	2005	2005	2005
Revenues:			
Program revenues			
Charges for services	57,571	216,267	273,838
Operating grants and contributions	89,250		89,250
Capital Grants			
General revenues			
Property taxes	19,912		19,912
General Sales and use taxes	41,286		41,286
Fees-in-lieu of taxes	4,955		4,955
Earnings on investments	2,953	4,206	7,159
Impact fees		6,164	6,164
Connection Fees		1,000	1,000
Miscellaneous	4,662		4,662
Total revenues	<u>220,589</u>	<u>227,637</u>	<u>448,226</u>
Expenses:			
General government	108,646		108,646
Highways & streets	44,685		44,685
Public Safety	96,576		96,576
Culture & recreation	3,237		3,237
Water fund		56,924	56,924
Electric Fund		175,424	175,424
Total expenses	<u>253,144</u>	<u>232,348</u>	<u>485,492</u>
Increase (decrease) in net assets	<u>(32,555)</u>	<u>(4,711)</u>	<u>(37,266)</u>

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental funds

The focus of the Town's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In particular *unreserved fund balance*, which is available for spending at the government's discretion.

The general fund is the chief operating fund of the Town. At the end of the current year, unreserved fund balance of the general fund was \$179,118, which is the total fund balance. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

Proprietary funds

The Town's proprietary funds provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water service fund at the end of the year amounted to \$51,024 and for the electric fund was \$156,657.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of \$18,666 can be briefly summarized as follows:

\$8,905 decrease in general government

\$,8900 increase in highway and streets

\$18,671 increase in public safety

During the year, actual revenues were more than budgeted revenues by \$6,773, and actual expenditures were less than budgeted expenditures by \$12,898.

Capital Asset and Debt Administration

Capital assets

The Town's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$226,823 (net of accumulated depreciation). This investment in capital assets includes, buildings, and equipment.

Additional information on the Town's capital assets can be found in the notes to the financial statements.

Long-term debt

At the end of the current year, the Town had no outstanding debt.

Requests for Information

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Paragonah Town, 44 North 100 West, P.O. Box 600247, Paragonah, Utah 84760.

BASIC FINANCIAL STATEMENTS

PARAGONAH TOWN, UTAH**Statement of Net Assets**

June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets:			
Current assets:			
Cash & cash equivalents	\$ 243,491	\$ 207,798	\$ 451,289
Accounts receivable	5,110	21,791	26,901
Property tax receivable	17,820		17,820
Capital assets, net of accumulated depreciation	226,823	361,428	588,251
Total assets	493,244	591,017	1,084,261
Liabilities and Net Assets			
Liabilities :			
Accounts payable	7,782	21,908	29,690
Other payables	1,161		1,161
Deferred revenue property tax	17,820		17,820
Total liabilities	26,763	21,908	48,671
Net Assets:			
Invested in capital assets, net of related debt	226,823	361,428	588,251
Unrestricted	239,658	207,681	447,339
Total net assets	\$ 466,481	\$ 569,109	\$ 1,035,590

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH

Statement of Activities

Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 108,646	\$ 57,571	\$ 2,160	\$ -	\$ (48,915)
Highways & streets	44,685		35,149		(9,536)
Public Safety	96,576		51,941		(44,635)
Culture & recreation	3,237				(3,237)
Total governmental activities	253,144	57,571	89,250	-	(106,323)
Business-type activities:					
Water Fund	56,924	46,507			(10,417)
Electric Fund	175,424	169,760			(5,664)
Total business-type activities	232,348	216,267			(16,081)
Total government	\$ 485,492	\$ 273,838	\$ 89,250	\$ -	\$ (122,404)

(Continued on page 12)

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Statement of Activities
Year Ended June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets			
Net (expense) revenue from previous page	\$ (106,323)	\$ (16,081)	(122,404)
General revenues:			
Taxes:			
Property taxes	19,912		19,912
Fees-in-lieu of taxes	4,955		4,955
General sales and use taxes	41,286		41,286
Earnings on investments	2,953	4,206	7,159
Connection Fees		6,164	6,164
Impact fees		1,000	1,000
Miscellaneous	4,662		4,662
Total general revenues and transfers	<u>73,768</u>	<u>11,370</u>	<u>85,138</u>
Increase in net assets	(32,555)	(4,711)	(37,266)
Net assets - beginning	<u>499,036</u>	<u>573,820</u>	<u>1,072,856</u>
Net assets - ending	<u>\$ 466,481</u>	<u>\$ 569,109</u>	<u>\$ 1,035,590</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

PARAGONAH TOWN, UTAH
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Cash & cash equivalents	\$ 182,951	\$ 60,540	\$ 243,491
Accounts receivables	5,110		5,110
Total assets	<u>\$ 188,061</u>	<u>\$ 60,540</u>	<u>\$ 248,601</u>
Liabilities:			
Accounts Payable	\$ 7,782	\$ -	\$ 7,782
Sales Tax Payable	1,161		1,161
Total liabilities	<u>8,943</u>	<u>-</u>	<u>8,943</u>
Fund balances:			
Unreserved, undesignated	179,118	60,540	239,658
Total fund balances	<u>179,118</u>	<u>60,540</u>	<u>239,658</u>
Total liabilities and fund balances	<u>\$ 188,061</u>	<u>\$ 60,540</u>	<u>\$ 248,601</u>

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance - governmental funds	\$ 239,658
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$683,645 and the accumulated depreciation is \$456,822.	226,823
Total net assets - governmental activities	<u><u>\$ 466,481</u></u>

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes	\$ 66,155	\$ -	\$ 66,155
Interest earnings	1,438	1,515	2,953
Licenses and permits	2,245		2,245
Intergovernmental revenues	89,249		89,249
Charges for services	54,371	3,200	57,571
Miscellaneous revenues	2,417		2,417
Total revenues	<u>215,875</u>	<u>4,715</u>	<u>220,590</u>
EXPENDITURES:			
General government	93,253	4,845	98,098
Highways & streets	44,685		44,685
Public Safety	55,438		55,438
Culture & recreation	2,828		2,828
Total expenditures	<u>196,204</u>	<u>4,845</u>	<u>201,049</u>
Excess of revenues over (under) expenditures	<u>19,671</u>	<u>(130)</u>	<u>19,541</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in		-	-
Operating transfers out		-	-
Sale of fixed assets			
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	19,671	(130)	19,541
FUND BALANCES JULY 1	159,447	60,670	220,117
FUND BALANCES JUNE 30	<u>\$ 179,118</u>	<u>\$ 60,540</u>	<u>\$ 239,658</u>

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ 19,541
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays	11,892	
Depreciation expense	<u>(63,988)</u>	
		(52,096)

Change in net assets of governmental activities	<u>\$ (32,555)</u>
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The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Statement of Net Assets
Major Proprietary Funds
June 30, 2005

	<u>Water Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Assets			
Current assets:			
Cash & cash equivalents	\$ 49,161	\$ 158,637	\$ 207,798
Accounts receivable	4,365	17,426	21,791
Total current assets	<u>53,526</u>	<u>176,063</u>	<u>229,589</u>
Long-term assets:			
Capital assets, net of accumulated depreciation	272,951	88,477	361,428
Total long-term assets	<u>272,951</u>	<u>88,477</u>	<u>361,428</u>
Total assets	<u>326,477</u>	<u>264,540</u>	<u>591,017</u>
Liabilities and Net Assets			
Liabilities :			
Current liabilities:			
Accounts payable	2,502	19,406	21,908
Total current liabilities	<u>2,502</u>	<u>19,406</u>	<u>21,908</u>
Long-term liabilities:			
Total long-term liabilities			
Total liabilities	<u>2,502</u>	<u>19,406</u>	<u>21,908</u>
Net assets:			
Invested in capital assets, net of related debt	272,951	88,477	361,428
Unrestricted	51,024	156,657	207,681
Total net assets	<u>\$ 323,975</u>	<u>\$ 245,134</u>	<u>\$ 569,109</u>

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Statement of Revenues, Expenses and Changes in Net Assets
Major Proprietary Funds
Year Ended June 30, 2005

	Water Fund	Electric Fund	Total
Operating revenues:			
Net revenue	\$ 46,507	\$ 169,760	\$ 216,267
Total operating revenues	46,507	169,760	216,267
Operating expenses:			
Salaries & Employee Benefits	21,790	19,736	41,526
Materials and Supplies	18,701	19,904	38,605
Utilities	630		630
Contracted Services	1,042	1,042	2,084
Purchased Power		119,755	119,755
Insurance	4,158	4,160	8,318
Other	2,962	7,192	10,154
Depreciation	7,641	3,635	11,276
Total operating expenses	56,924	175,424	232,348
Operating income (loss)	(10,417)	(5,664)	(16,081)
Nonoperating income:			
Interest Revenue	711	3,495	4,206
Connection Fees	3,114	3,050	6,164
Impact Fees	1,000		1,000
Total nonoperating income	4,825	6,545	11,370
Net income (loss) before transfers	(5,592)	881	(4,711)
Transfer in			
Change in net assets	(5,592)	881	(4,711)
Net assets - beginning	329,567	244,253	573,820
Net assets - ending	\$ 323,975	\$ 245,134	\$ 569,109

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
Statement of Cash Flows
Major Proprietary Funds
Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Electric Fund</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from customers	\$ 48,688	\$ 165,918	\$ 214,606
Cash payments to suppliers for goods and services	(25,758)	(132,708)	(158,466)
Cash payments to employees for services	(21,790)	(19,736)	(41,526)
Net cash provided (used) by operating activities	<u>1,140</u>	<u>13,474</u>	<u>14,614</u>
Cash flows from noncapital financing activities:			
Operating transfers from other funds			-
Net cash (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Cash received from impact fees	1,000		1,000
Cash received from connection fees	3,114	3,050	6,164
Net cash (used) by capital and related activities	<u>4,114</u>	<u>3,050</u>	<u>7,164</u>
Cash flows from investing activities			
Interest received	711	3,495	4,206
Net cash (used) by investing activities	<u>711</u>	<u>3,495</u>	<u>4,206</u>
Net increase in cash and cash equivalents	<u>5,965</u>	<u>20,019</u>	<u>25,984</u>
Cash and Cash Equivalents - Beginning	<u>43,196</u>	<u>138,618</u>	<u>181,814</u>
Cash and Cash Equivalents - Ending	<u>\$ 49,161</u>	<u>\$ 158,637</u>	<u>\$ 207,798</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (10,417)	\$ (5,664)	\$ (16,081)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			-
Depreciation expense	7,641	3,635	11,276
Increase decrease accounts receivable	2,181	(3,842)	(1,661)
Increase decrease in accounts payable	1,735	19,345	21,080
Total adjustments	<u>11,557</u>	<u>19,138</u>	<u>30,695</u>
Net cash provided (used) by operating activities	<u>\$ 1,140</u>	<u>\$ 13,474</u>	<u>\$ 14,614</u>

The notes to the financial statements are an integral part of this statement.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of Paragonah Town have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

The accompanying basic financial statements present the financial position of various fund types and account groups and the results of operations of the various fund types. The basic financial statements are presented for the year ended June 30, 2005.

A. Reporting Entity

For financial reporting purposes, Paragonah Town has included all funds and account groups. The Town has also considered all potential component units for which it is financially accountable and that exclusion would cause the Town's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Town to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Town.

Based on the above criteria, the Town has no component units and is not a component unit of any other government.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., statement of net assets and statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C: Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, Paragonah Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, property taxes, franchise taxes, licenses and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The Water Fund accounts for the activities of the Town's water distribution system.

The Electric Fund accounts for the activities of the Town's electric system.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D: Assets, Liabilities and Net Assets or Equity

Deposits and Investments:

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 Years
Improvements Other Than Buildings	20 Years
Equipment	5 Years

As allowed by GASB Statement 34, the Town has elected to report infrastructure on a prospective basis.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT

June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Compensated Absences:

The Town has a policy which allows employees to accumulate vacation pay. The Town allows vacation days to accumulate up to a maximum of 21 days for full time employees payable at termination. Sick leave may be accumulated up to a maximum of 30 days.

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations if any are reported as liabilities in the applicable governmental activities statement of net assets.

In the fund financial statement, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, if any, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governments fund balance sheet and the government-wide statement of net assets.**

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities as reported in the government-wide statement of net assets. These differences primarily result from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, & equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cost of capital assets	\$ 683,645
Accumulated depreciation	<u>(456,822)</u>
Total difference	<u><u>\$ 226,823</u></u>

B. Explanation of differences between governmental fund operating statements and the statement of net activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays are reported in the governmental funds as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net differences, the elements of this difference are as follows:

Capital outlay	\$ 11,892
Depreciation expense	<u>(63,988)</u>
Net difference as reported	<u><u>\$ (52,096)</u></u>

F: Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G: Property Tax:

Iron County assesses all taxable property other than centrally-assessed property, which is assessed through the state, by May 22 of each year. The Town should adopt a final tax rate prior to June 22, which is then submitted to the state for approval. Property taxes are due on November 30 of each year. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 15 of the following year, delinquent taxes and penalty bear interest of 6% above the federal discount rate from January 1 until paid.

Property taxes attach as an enforceable lien on property as they become delinquent. All unpaid taxes levied during the year become delinquent December 1 of the current year.

Property tax revenues are recognized when they become measurable and available. Amounts available include those property tax receivables expected to be collected within sixty days after year end.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

H: Budgets

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual budgets are adopted for governmental and proprietary fund types. Encumbrance accounting is not employed by the Town in its governmental funds, therefore, all annual appropriations lapse at fiscal year end.

The Town can make adjustments to the adopted budget through public hearings. During the fiscal year, the Town made budget adjustments through public hearings the effects of which were material and are reflected in management's discussion and analysis.

I: Statement of Cash Flows:

For the purpose of the Statement of Cash Flows, the Water and Electric Utility Funds consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2: CASH AND INVESTMENTS

The Town maintains a cash and investment pool, which includes the cash account and several investments.

The Town's deposit and investment policy is to follow the Utah Money Management Act. However, the Town does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the Town is exposed.

Utah State law requires that Town funds be deposited with a "qualified depository" as defined by the Utah Money Management Act. "Qualified depository" includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements as defined in Rule 11 of the Utah Money Management Act. Rule 11 establishes the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and defines capital requirements which an institution must maintain to be eligible to accept public funds.

The Utah Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the Town and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 2: CASH AND INVESTMENTS - CONTINUED

As of June 30, 2005, the Town had the following deposits and investments:

<u>Deposit and investment type</u>	<u>Fair Value</u>
Cash on deposit	\$ 162,710
State Treasurer's investment pool	<u>288,579</u>
	<u>\$ 451,289</u>

Interest rate risk. The Town manages its exposure to declines in fair value by only investing in the Utah Public Treasurers Investment Fund.

Credit risk. As of June 30, 2005 the Utah Public Treasurer's Investment Fund was unrated.

Concentration of credit Risk. The Town's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2005 \$62,710 of the deposits was exposed to custodial credit risk because it was uninsured or uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments that are in the possession of an outside party. The Town's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

Components of cash and investments (including interest earning deposits) at June 30, 2005, are as follows:

Cash on hand and on deposit:	
Cash on deposit	\$ 162,710
Utah State Treasurer's investment pool account	<u>288,579</u>
Total cash and investments	<u>\$ 451,289</u>

Cash and investments are included in the accompanying combined statement of net assets as follows:

Cash and cash equivalents	<u>\$ 451,289</u>
Total cash and investments	<u>\$ 451,289</u>

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 3. CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Buildings & Improvement	\$ 80,538	\$	\$	\$ 80,538
Machinery & Equipment	<u>591,215</u>	<u>11,891</u>	<u></u>	<u>603,106</u>
Total capital assets, being depreciated	<u>671,753</u>	<u>11,891</u>	<u></u>	<u>683,644</u>
Accumulated depreciation for:				
Building & Improvements	18,975	2,013		20,988
Machinery & Equipment	<u>373,859</u>	<u>61,975</u>	<u></u>	<u>435,834</u>
Total accumulated depreciation	<u>392,834</u>	<u>63,988</u>	<u></u>	<u>456,822</u>
Total capital assets, being depreciated, net	<u>278,919</u>	<u>(52,097)</u>	<u></u>	<u>226,822</u>
Governmental activities capital assets, net	<u>\$ 278,919</u>	<u>\$ (52,097)</u>	<u>\$</u>	<u>\$ 226,822</u>
Business type activities:				
Capital assets, not being depreciated				
Land	<u>\$ 10,200</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,200</u>
Total capital assets, not being depreciated	<u>10,200</u>	<u></u>	<u></u>	<u>10,200</u>
Capital assets, being depreciated:				
Machinery & Equipment	<u>532,978</u>	<u></u>	<u></u>	<u>532,978</u>
Total capital assets, being depreciated	<u>532,978</u>	<u></u>	<u></u>	<u>532,978</u>
Accumulated depreciation for:				
Machinery & Equipment	<u>170,474</u>	<u>11,276</u>	<u></u>	<u>181,750</u>
Total accumulated depreciation	<u>170,474</u>	<u>11,276</u>	<u></u>	<u>181,750</u>
Total capital assets, being depreciated, net	<u>362,504</u>	<u>(11,276)</u>	<u></u>	<u>351,228</u>
Business type activities capital assets, net	<u>\$ 372,704</u>	<u>\$ (11,276)</u>	<u>\$</u>	<u>\$ 361,428</u>

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 3. CAPITAL ASSETS - CONTINUED

Depreciation was charged to governmental activities functions as follows:

General government	\$ 10,548
Public Safety	53,031
Culture & recreation	409
Total	<u>\$ 63,988</u>

NOTE 4. DEFINED BENEFIT PENSION PLAN

Plan Description: Paragonah Town, Utah contributes to the Local Governmental Noncontributory Retirement System which is part of the cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety and Firefighters Retirement Systems for employers with (without) Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 So. Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy: Plan members are required to contribute a percent of their covered salary (all or part may be paid by the employer) to the respective systems to which they belong. Members contribute 6% to the Contributory System. Paragonah Town is required to contribute 7.08% of covered salary to the Contributory System. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

Paragonah Town, Utah contributions to the Contributory Retirement System for June 30, 2005, 2004 and 2003 were \$5,804, \$4,672 and \$3,747 respectively. The contributions were equal to the required contributions for each year.

PARAGONAH TOWN, UTAH
NOTES TO FINANCIAL STATEMENT
June 30, 2005

NOTE 5. RISK MANAGEMENT

Paragonah Town, Utah is subject to various types of risk such as tort actions, theft, damage, or destruction of assets by intent or acts of God, and job related illnesses or injury.

The Town has procured commercial insurance coverage and Workman's Compensation Insurance which in the Town's estimation, is adequate to reduce the risk of loss to a manageable level.

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

PARAGONAH TOWN, UTAH
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Budgetary fund balance, July 1	\$ 159,447	\$ 159,447	\$ 159,447	\$ -
Resources (inflows):				
Taxes	61,343	61,343	66,155	4,812
Interest earnings	216	216	1,438	1,222
Licenses and permits	1,570	1,570	2,245	675
Intergovernmental revenues	73,895	92,561	89,249	(3,312)
Charges for services	50,322	50,322	54,371	4,049
Miscellaneous revenues	3,090	3,090	2,417	(673)
Amounts available for appropriation	349,883	368,549	375,322	6,773
Charges to appropriations (outflows):				
General government	105,985	97,080	93,253	3,827
Highways & streets	38,000	46,900	44,685	2,215
Public Safety	41,660	60,331	55,438	4,893
Culture & recreation	4,791	4,791	2,828	1,963
Total charges to appropriations	190,436	209,102	196,204	12,898
Budgetary fund balance, June 30	\$ 159,447	\$ 159,447	\$ 179,118	\$ 19,671

The notes to the financial statements are an integral part of this statement.

**COMBINING FINANCIAL STATEMENTS
AND SCHEDULES**

PARAGONAH TOWN, UTAH
Combining Balance Sheet
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Cemetary Perpetual Care Fund	Total Nonmajor Governmental Funds
Assets:		
Cash & cash equivalents	\$ 60,539	\$ 60,539
Total assets	<u>\$ 60,539</u>	<u>\$ 60,539</u>
Fund balances:		
Reserved		
Unreserved, undesignated	\$ 60,539	\$ 60,539
Total fund balances	<u>60,539</u>	<u>60,539</u>
Total liabilities and fund balances	<u>\$ 60,539</u>	<u>\$ 60,539</u>

PARAGONAH TOWN, UTAH
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2005

	Cemetery Perpetual Care Fund	Nonmajor Governmental Funds
REVENUES:		
Interest earnings	\$ 1,515	\$ 1,515
Charges for services	3,200	3,200
Total Revenues	<u>4,715</u>	<u>4,715</u>
EXPENDITURES:		
General government	4,845	4,845
Total Expenditures	<u>4,845</u>	<u>4,845</u>
Excess of Revenues over (under) Expenditures	<u>(130)</u>	<u>(130)</u>
OTHER FINANCING SOURCES (USES):		
Debt proceeds		
Operating transfers in		
Operating transfers out		
Sale of fixed assets		
Total Other Financing Sources (Uses)	<u> </u>	<u> </u>
Excess of revenues and other sources over (under) expenditures and other uses	(130)	(130)
FUND BALANCES JULY 1	60,670	60,670
FUND BALANCES JUNE 30	<u>\$ 60,540</u>	<u>\$ 60,540</u>

COMPLIANCE SECTION

Wilson & Company

Certified Public Accountants / A Professional Corporation

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Town Council
Paragonah Town
Paragonah, Utah

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Paragonah Town, Utah as of and for the year ended June 30, 2005, which collectively comprise Paragonah Town, Utah's basic financial statements and have issued our report thereon dated November 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Paragonah Town, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Paragonah Town, Utah in a separate letter dated December 2, 2005.

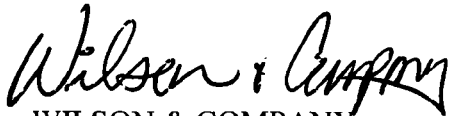
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Paragonah Town, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our

Paragonah Town, Utah
Page 2

audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management of Paragonah Town, Utah in a separate letter dated December 2, 2005.

This report is intended solely for the information and use of the management of Paragonah Town, Utah, and applicable federal and state funding and auditing agencies and is not intended to be and should not be used by anyone other than these specified parties.



WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
November 25, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

PARAGONAH TOWN, UTAH
AUDITOR'S REPORT ON COMPLIANCE WITH STATE FISCAL LAWS
For the Year Ended June 30, 2005

The Honorable Town Council
Paragonah Town
Paragonah, Utah

We have audited the general purpose financial statements of Paragonah Town, Utah, for the year ended June 30, 2005 and have issued our report thereon dated November 25, 2005. As part of our audit, we have audited Paragonah Town's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The Town received the following major State assistance programs from the State of Utah:

C Road Funds (Department of Transportation)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the Compliance manual for Audits of Local Governments in Utah including:

Public Debt	B&C Roads
Cash Management	Impact Fees
Purchasing Requirements	
Budgetary Compliance	
Truth in Taxation	
Liquor Law Enforcement	
Other Compliance Requirements	

The management of Paragonah Town, Utah is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis evidence about the Town's compliance with the requirements. We believe that our audit provides a reasonable basis for our opinion.

Paragonah Town, Utah
Page 2

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Paragonah Town, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of service allowed and unallowed; eligibility; matching, level of effort, or earmarking; reporting, and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.


WILSON & COMPANY
Certified Public Accountants

Cedar City, Utah
November 25, 2005

Wilson & Company

Certified Public Accountants / A Professional Corporation

December 2, 2005

Honorable Mayor and Town Council
Paragonah Town
Paragonah, Utah

We have examined the financial statements of Paragonah Town, Utah for the year ended June 30, 2005, and have issued our report thereon dated November 25, 2005. As part of our examination, we made a study and evaluation of the Town's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Town's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of Paragonah Town, Utah is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of Paragonah Town taken as a whole. However, our study and evaluation disclosed the following conditions that we believe require the Town's further attention.

Impact Fees

We noted during our exam that the Town did not use any impact fees during the year..

We suggest that the Town carefully monitor impact fees to ensure that the fees are expended within the six year limit allowed by the law. We further suggest that if any eligible projects are constructed by the Town, that impact fees are spent towards that project first.

Water and Electric Funds

During our exam we noted that both the Water Fund and Electric Fund had net operating losses.

We suggest that the Town continue to closely monitor these funds to insure that they earn sufficient income for future needs.

Burial Fees

We noted that burial fees continue to be recorded as revenue in the perpetual care fund.

We suggest that they may be more appropriately recorded as general fund revenue in the future.

Direct payments to employees

During our exam we noted that the Town made direct payments to employees for work performed by them on a road project.

Although the amounts were small, we suggest the Town discontinue this practice since it violates Internal Revenue regulations and could present workers compensation issues.

Minutes

During our exam we noted that the minutes of the special meeting of the Town Council on August 18, 2004 were not signed by the mayor.

We suggest that the Town insure that all minutes are properly signed.

Writeoff of utility accounts

We noted that small utility account writeoffs were charged to a balance sheet account and that approval for writeoffs was not in the minutes.

The Town should charge writeoffs directly to an expense of the applicable fund and a list of writeoffs should be presented to the Town Council for approval and included in the minutes.

General Fund Surplus

During our exam we noted that the fund balance in the General Fund exceeds the limit allowed by Utah Code 10-5-113(2).

We suggest that the Town take action to bring the fund balance of the General Fund in compliance with the law by budgeting appropriate expenditures or making a transfer to another fund.

The above conditions were considered in determining the nature, timing, and extent of the audit tests applied in our examination of the Town's June 30, 2005, financial statements.

Our comments are intended to be constructive in nature. The absence of positive or complimentary comments does not imply that the Town operates in an inefficient or ineffective manner. We welcome the opportunity to discuss these conditions in further detail and express our appreciation to the staff for their assistance during the examination.

This report is intended solely for the use of management and the Utah State Auditor and should not be used for any other purpose.

Sincerely,


WILSON & COMPANY
Certified Public Accountants
Cedar City, Utah

Paragonah Town

P.O. Box 800247
Paragonah, Utah 84760
(435) 477-8979

December 16, 2005

Jim Wilson, CPA
Wilson & Company
360 West 200 North
P.O. Box 1110
Cedar City, Utah 84720

Dear Mr. Wilson:

The following statements are written in response to your management letter concerning Paragonah Town's financial statements for the year ended June 30, 2005, and your findings concerning the Town's internal accounting control procedures:

Impact Fees

The impact fees will be expended during the 2006 fiscal year to help pay for impact fee study.

Water and Electric Funds

The Town will continue to closely monitor these funds to insure they earn sufficient income for future needs.

Burial Fees

A revenue account will be set up for burial fees in the general fund.

Direct payments to employees

The town will no longer issue direct payments to employees for work performed on road projects.

Minutes

The town will insure all minutes of meetings are properly signed by the Mayor.

Writeoff of utility accounts

Writeoffs on utility account will be charged directly to an expense account of the applicable fund and a list of writeoffs will be presented to the Town Council for approval to be included in the minutes.

Jim Wilson, CPA
Wilson & Company
Page 2

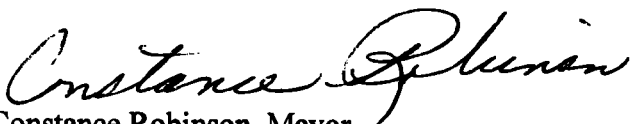
General Fund Surplus

The Town will bring the fund balance of the General Fund into compliance by transferring funds to the Power and Water Departments.

Thank you for all of the time you and your staff have spent on our audit. We appreciate the information you provide to us on how we can improve our internal accounting control procedures.

You and your staff are always a pleasure to work with.

Sincerely,


Constance Robinson, Mayor
Town of Paragonah